EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	VC/NIC				
16	NIO/ECON		X		
17					
18					
19					
20					
21					
22					

SUSPENSE ____________ Date

Remarks

Executive Secretary

____________ Date

3637 (10-81)

THE WHITE HOUSE
WASHINGTON

August 7, 1985

NOTE FOR WILLIAM J. CASEY

FROM: ROGER B. PORTER RBP

The agenda and papers for the August 8 Meeting of the Economic Policy Council are attached.

EPC mtg.

8 Aug 85

Footwear

THE WHITE HOUSE

WASHINGTON

August 7, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Paper for the August 8 Meeting

The agenda and paper for the August 8 meeting of the Economic Policy Council are attached. The meeting is scheduled for 2:00 p.m. in the Roosevelt Room.

The Council will consider the Section 201 nonrubber footwear petition. The Council last reviewed this agenda item at its August 1 meeting. The attached paper briefly presents the background of the issue, the major policy objectives, and the five broad policy options. The options include: (1) no import relief; (2) the International Trade Commission recommendation of global import quotas; (3) a global import quota with Orderly Marketing Agreements; (4) a 35 percent initial tariff declining over 3 years; and (5) a 25 percent initial tariff declining over 5 years.

Attachments

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

August 8, 1985

2:00 p.m.

Roosevelt Room

AGENDA

1. Section 201 Nonrubber Footwear Petition

September 7, 1985

Section 201 Nonrubber Footwear Case

Issue: Should the President grant import relief to the U.S. footwear industry and if so what type of relief should be granted?

Background

On July 1, 1985, the U.S. International Trade Commission (ITC) advised the President that increased imports have substantially injured the U.S. nonrubber footwear industry, and recommended imposing a global import quota. The Trade Act of 1974 requires that he decide by August 30: (1) whether to grant import relief to the industry; and (2) if relief is granted, what form and level should be provided. The law requires him to determine whether relief would be in the national economic interest.

Production and employment in the U.S. footwear industry has declined relatively steadily over time. Production in the U.S. declined from a peak of 640 million pairs in 1968 to 300 million in 1984. Employment declined from a peak of 231,000 in 1967 to 121,000 in 1984. Although there are over 400 U.S. firms, roughly 20 firms account for about half of U.S. production.

Imports increased from 180 million pairs in 1968 to 730 million pairs in 1984. The ratio of the volume of imports to U.S. consumption rose during that period from 22 to 71 percent (and a 77 percent annual rate so far in 1985); the ratio of the value of imports to U.S. consumption rose from 5 to 55 percent. The value of imports is less than the volume because imports tend to be in lower-price markets. In terms of volume, the top three suppliers are Taiwan, South Korea, and Brazil. In terms of value, the top three suppliers are Taiwan, Brazil, and Italy. Imports have risen significantly because of lower labor costs abroad, the roughly comparable level of technology here and abroad, and the strength of the U.S. dollar.

Major Policy Objectives

The law requires the President to make his decision by considering certain statutory criteria, which are broader than those considered by the ITC in determining injury. The most important economic criteria include:

1. Adjustment. Can import relief allow U.S. firms to adjust to greater international competitiveness? Would relief encourage other countries to produce higher-price shoes, which would hurt efforts by U.S. producers to adjust? To what extent would U.S. footwear employment increase?

2. Domestic economic costs. To what extent would import relief impose costs on: (a) U.S. consumers, particularly low-income consumers, because shoe prices will rise; (b) other U.S. industries because foreign countries will demand compensation or retaliate; and (c) the U.S. economy because import restrictions will make it less efficient?

3. International economic costs. To what extent would import relief hurt other countries, particularly Brazil, which depends significantly on footwear exports to service its external debt?

The Economic Policy Council found no economic justification for granting relief. However, the President needs to consider certain political criteria:

1. Legislation restricting imports. Would granting relief to footwear discourage footwear supporters from supporting the textile quota bill (House: 291 cosponsors, Senate: 54)? Would granting relief encourage other industries to press even harder for relief and weaken the Administration's ability to resist such pressures?

2. Section 201 legislation. What is the risk that the Congress would pass legislation reducing or eliminating presidential discretion in Section 201 cases, and thus make it more likely that relief would be provided to industries filing cases?

3. Foreign policy. To what extent would import relief hurt U.S. relations with affected countries, particularly Brazil and E.C. members? To what extent would import relief encourage protectionism abroad and reduce support for a new trade round?

Policy Options

The Council reviewed five options. The relief options differ primarily in their form (quota or tariff), level of restriction, and their application only to imports above $2.50 or $4.00 customs value (roughly $10.00 or $16.00 retail).

Option 1: Provide no import relief, utilize Federal funds to assist dislocated workers.

Advantages

- Maintains Administration policy of focusing on unfair trade practices. Granting relief to footwear may make it difficult to avoid granting relief to other industries with high import penetration and broader support for protection.
- Imposes no domestic economic costs.
- Strengthens U.S. ability abroad to resist protectionism and encourage support for new trade round.

Option 2: Adopt the ITC recommendation, which would impose a global quota for 5 years on shoes over $2.50 a pair. It would initially reduce import penetration to 61 percent, but be uncertain about future import share.

Advantages

- o Encourages adjustment of the U.S. footwear industry out of the low-price market and into the higher-price market.
- o Reduces more effectively than other options risk of Congress passing a veto-proof textile bill.
- o Reduces risk of Congress passing legislation restricting presidential discretion in Section 201 cases.

Option 3: Impose a global quota for 5 years and negotiate Orderly Marketing Agreements (OMAs) with Brazil, Taiwan, South Korea, Italy, and Spain to limit imports over $4.00 a pair to 1984 levels for the first year and allow for 4 percent annual increase in imports, which would initially reduce import penetration to about 71 percent, but be uncertain about future import share.

Advantages

- o Avoids seriously hurting foreign producers, particularly Brazil, since imports would be at roughly current levels.
- o Imposes the lowest consumer costs of any relief option at $130 million annually. Reduces costs on low-income consumers more than Option 2 because it excludes imports below $4.00, instead of $2.50.
- o Minimizes impact on other U.S. industries because countries agreeing to OMAs would forego compensation claims.

Option 4: Increase tariffs sharply from an average of 9 percent to 35 percent and decline sharply over 3 years on shoes over $4.00 a pair. It would initially reduce import penetration to 61 percent and end at about 73 percent.

Advantages

- o Reduces risk of Congress passing a veto-proof textile bill.
- o Helps U.S. industry adjust since tariffs, unlike quotas in Options 2 & 3, do not encourage other countries to produce higher-price shoes.

- o Imposes consumer costs of about $300 million annually. Reduces costs on low-income consumers more than Option 2 because it excludes imports below $4.00, instead of $2.50. Makes clearer the costs of protectionism because effects of tariff are more visible than quotas in Options 2 & 3.

Option 5: Increase tariffs from an average of 9 percent to 25 percent and decline moderately over 5 years on shoes over $4.00 a pair. It would initially reduce import penetration to 62 percent and end at about 71 percent.

Advantages

- o Imposes consumer costs of about $350-400 million annually. Reduces costs on low-income consumers more than Option 2 because it excludes imports below $4.00, instead of $2.50. Makes clearer the costs of protectionism because effects of tariff are more visible than quotas in Options 2 & 3.

- o Avoids seriously hurting foreign producers, particularly Brazil, since imports would probably not be cut back significantly.

- o Preserves U.S. ability abroad to resist protectionism and encourage support for new round better than Options 2 & 3 because tariffs are preferable to quotas.